



The Water Authority of the Cayman Islands



North Side Water Works - June 2009

ANNUAL REPORT

For the 2008/09 Financial Year



OWNERSHIP AGREEMENT ANNUAL REPORT

For

The Water Authority of the Cayman Islands

For the 2008/09 Financial Year

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1. Purpose

This annual report details the performance of The Water Authority of the Cayman Islands ("The Authority") for the fiscal year ended 30 June 2009.

It includes information about the actual performance delivered during the year as compared to the planned performance documented in the Ownership Agreement for The Water Authority of the Cayman Islands for 2008/09, or as amended through the supplementary appropriation process.

2. Nature and Scope of Activities

This section outlines the Nature and Scope of Activities within which The Authority operated during the year.

Approved Nature and Scope of Activities

The Authority's activities are:

To ensure that the entire population of the Cayman Islands have access to a pure, wholesome and affordable supply of potable water; and to regulate other entities who are licensed by the Government to provide public water supplies.

To protect and develop groundwater resources for the benefit of present and future populations of these islands.

To provide for the collection, treatment and disposal of sewage within these islands in a manner that is safe, efficient and affordable.

To operate in such a manner as to be financially self-sufficient, while contributing to the economy of these islands and achieving a reasonable and acceptable return on capital investments.

Compliance during the Year

Throughout the 2008/09 fiscal period the Authority complied with the defined mission statement as described above.

To ensure that the population of the Cayman Islands has access to pure, wholesome and affordable drinking water the Authority extended the distribution pipeline throughout the North Side District, completing phases 8, 9, 10, 11, 12 and miscellaneous side roads on North Side West at a combined cost of \$1.8 million.

During the course of the year the Authority sold 3.3 million m³ of water (2008: 3.3 million m³) and processed 704,454,000 gallons of wastewater (2008: 657,042,000 gallons) in Grand Cayman and sold 0.1 million m³ of water in Cayman Brac (2008: 0.1 million m³).

Throughout the fiscal period, and in an ongoing quest to protect and develop the groundwater resources, the Authority commenced discussion with the Development Control Board and planners in the Sister Islands to determine practical and feasible options for wastewater treatment and disposal on the Bluff and in Little Cayman, continued to work with Boatwain's Beach on options to reduce impacts of effluent disposal, and reviewed development applications submitted through the Planning Department to ensure compliance with the Water Authority Regulations.

The Authority prides itself on its fiscal management and ability to be self-sufficient. Throughout the fiscal period the Authority had a positive net surplus and maintains its fiscal independence. The Authority contributed \$100,000 to the Government of the Cayman Islands (2008: \$50,000) and invested over \$4.0 million (2008: \$4.2 million) into the capital infrastructure of the islands.

3. Strategic Goals and Objectives

Approved Strategic Goals and Objectives

The key strategic goals and objectives (from an ownership perspective) for The Authority for the 2008/09 financial year were as follows:

- *Develop water Production plant to service the North Side*
- *Extend and repair existing Collection System*
- *Cayman Brac Water Distribution System*
- *Red Gate Site Work – New Storage Tank, File Storage Building, Landscaping*

- *North Side Water Works – Pumping Facility*
- *Cayman Brac - Septage Treatment and Disposal*

Achievement during the Years

In January 2008 Construction Management and Engineering Company (CMEC) broke ground on the North Side Water Works Production and Pumping Facility and completed the project in the third quarter of 2008/09.

The Authority has not commenced work on the extension of the existing wastewater collection systems, rehabilitation of the wastewater collection system, the Cayman Brac Water Distribution System project or the Cayman Brac Septage Treatment and Disposal project due to limited in house resources.

The Authority awarded the contract to build a Reverse Osmosis plant on the North Side Site to Ocean Conversion (Cayman) Limited (OCL) in March 2008. Construction started in July 2008 and is expected to be completed in the first quarter of 2009/10.

4. Ownership Performance Targets performance targets

Financial Performance

Financial Performance Measure	2008/09 Actual \$	2008/09 Budget (March 2007) \$	Annual Variance \$
Revenue from Cabinet	Nil	Nil	Nil
Revenue from ministries, portfolios, statutory authorities and government companies	Nil	Nil	Nil
Revenue from other persons or organisations	26,476,479	27,789,215	(1,312,736)
Surplus/deficit from outputs	7,644,425	8,795,408	(1,150,983)
Other expenses	5,608,842	6,794,106	(1,185,264)
Net Surplus/Deficit	3,368,325	2,001,302	1,367,023
Total Assets	74,701,659	76,400,000	(1,698,341)
Total Liabilities	24,402,654	29,979,216	(5,576,562)
Net Worth	50,299,005	46,420,784	3,878,221
Cash flows from operating activities	5,584,096	4,712,673	871,423
Cash flows from investing activities	(3,956,074)	(15,007,100)	11,051,026
Cash flows from financing activities	3,778,258	10,172,771	(6,394,513)
Change in cash balances	5,406,280	(121,655)	5,527,935

Financial Performance Ratio	2008/09 Actual	2008/09 Budget (March 2007)	Annual Variance
Current Assets: Current Liabilities	1.50	0.73	0.77
Total Assets: Total Liabilities	3.06	2.60	0.46

Explanation of Variances

Financial Performances: Income Statement

Budgeted revenue figures were prepared in March 2007 and were based on a strong projected rate of growth and a substantial rate increase. Therefore it is reasonable that the Authority did not meet the original revenue projections as there was been no adjustment to rates and also growth has slowed considerably from original projections. While the Authority did not meet budgeted figures the revenue figures were still reflective of moderate growth over that shown in 2007/08 (\$25.2 million, an increase of 5%) and continues to benefit from mild economic growth on the island.

An increased Net Surplus is a representation of the strong fiscal management of the Authority given lower than expected sales figures.

Decreased "Other Expenses" is within expectation as sales were not as high as originally planned and also evidence of several projects that the Authority had planned to complete but was unable to due to limited in house resources, for example, completion of the Cost of Service and Rate Design project.

The Authority had aggressively planned to complete several projects throughout 2008/09 however not all of them were completed, which is the reason that the Total Assets is \$1.7 million lower than originally expected. Most notably is the delay in replacement of the Governor's Harbour Sewerage System and the extension of the Water Distribution System on the island of Cayman Brac which have both been delayed due to unavailable resources.

During the course of the 2008/09 budget process (March 2007) the Authority had planned to borrow over \$14.2 million in Long Term Debt, however during the 2008/09 the Authority took advantage of an available credit facility that was set to expire and realized proceeds from Long Term Debt of only \$7.1 million. Reduced external debt supports a decrease in liabilities, assets and also the associated reduction in cash flow from investing activities and also a decrease in cash flow from financing activities.

With a solid revenue stream, strong cash management, prioritization of projects to complete, and injection of the remaining available credit facility, it is reasonable that the cash position of the Authority is stronger than originally anticipated. The strong cash position allows the Authority flexibility in the future to complete required projects with minimal injection of traditional debt financing.

As part of the annual budget process the Authority updates the ambitious Ten Year Capital Development plan. This plan is an integral part of the Authority's ability to ensure that supply meets the expected demand, taking into consideration growth rates as well as lead time to complete major projects. As part of this budget process the Authority conservatively estimates revenue and stringently manages expenses in order to maintain a key component of the Mission Statement, "To operate in such a manner as to be financial self-sufficient while contribution to the economy of these islands and achieving a reasonable and acceptable return on capital investments".

In Summary - The original projections for the 2008/09 fiscal period, as presented in the 2008/09 Ownership Agreement are taken from the 2008/09 budget, as prepared for the Board in March 2007, this document was subsequently updated in April 2008. Despite lower than expected sales, the Authority is in a stronger financial position than originally budgeted, primarily as a result of conservative estimates and prudent fiscal management which translated to the Authority's ability to complete many of the projects with minimal injection from outside credit facilities.

Financial Performance Ratios:

It is within reason, given the explanations as noted above that the Financial Performance Ratios are stronger than originally expected.

Maintenance of Capability

Human Capital Measures	2008/09 Actual	2008/09 Budget (March 2007)	Annual Variance
Total full time equivalent staff	122	120	2
Staff turnover (%)	12%	14%	(2%)
Average length of service (In Years) Senior Management Professional Staff Administrative / Field Staff	11 Years 5 Years 7 Years	10 Years 5 Years 5 Years	1 Year Nil 2 Years
Significant changes to personnel management system	No projected software upgrades	No projected software upgrades	N/A

Physical Capital Measures	2008/09 Actual	2008/09 Budget (March 2007)	Annual Variance
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	\$63,168,393	Not correctly provided in original submission	N/A
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	5.4%	Not correctly provided in original submission	N/A
Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets)	70.8%	Not correctly provided in original submission	N/A
Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased)	65.3%	Not correctly provided in original submission	N/A
Changes to asset management policies	None	None	N/A

Major Capital Expenditure Projects	2008/09 Actual \$	2008/09 Budget (March 2007) \$	Annual Variance \$
Develop water production plant to service the North Side	Nil	4,000,000	N/A
Extend and repair existing Collection System	Nil	3,000,000	N/A
Cayman Brac Water Distribution System	Nil	2,500,000	N/A
Red Gate Site Work – New Storage Tank, File Storage Building, Landscaping	Nil	1,500,000	N/A
North Side Water Works – Pumping Facility	570,093	500,000	70,093
Cayman Brac – Septage Treatment and Disposal	Nil	500,000	N/A

Risk Management

Key risks	Status of Risk	Actions taken during 2008/09 to Manage risk	Financial Value of risk
Property / Employee / Public Liability / Motor Vehicle	No Identified Change in risk Status	Adequate insurance maintained to mitigate the risk	Value of deductible

Explanation of Variances

Human Capital Measures:

Total Full Time Staff Equivalent - The Authority recruited to fill two essential positions.

Staff Turnover / Average Length of Service – The Authority is committed to providing a positive working environment for staff and strives to minimize / reduce turnover by encouraging staff training, internal promotions, scholarships and equitable market compensation, with the ultimate objective to retain valuable staff.

Major Capital Expenditure Projects:

Develop Water Production Plant to Service North Side – To continue to provide the high level of water reliability and quality to the residents of Grand Cayman it was necessary to build a Reverse Osmosis plant on the North Side Site to accommodate expected growth within the distribution system, improve operational reliability and flexibility of the distribution system and to maintain a consistent pressure throughout. Production capacity was originally estimated to be for 6,000m³ / day to be provided in two separate phases, but later increased to 9,000m³ / day to accommodate the expected growth. The Authority awarded the contract to Ocean Conversion (Cayman) Limited (OCL) in March 2008 to build the Water Production Plant at the North Side Site after a competitive tendering process was complete at a total cost of \$9.2 million. Ground was broken on the project in July 2008 with completion originally expected by the end of fiscal 2008/09, but later adjusted to the first quarter of 2009/10. The Authority is not responsible for any payments until the project is completed and therefore it is reasonable that no costs have been incurred by the Authority @ 30 June 2009.

Extend and Repair Existing Collection System – The Water Authority has long term plans to extend the existing collection system into Governors Harbour, down West Bay Road to the Cemetery and also into Snug Harbour to ensure proper treatment of wastewater and protect the natural environment and public health. To date (30 June 2009) no substantial work has been completed on this project due to insufficient resources.

Cayman Brac Water Distribution System – In response to requests from the public and in fulfillment of the Authority's mission statements there are plans to provide the convenience of "city water" to residents living on the North Side of Cayman Brac. The Authority received a verbal commitment from government in 2006 to vest a section of property next to the Ashton Ruddy Civic Centre on the Bluff to the Authority for the construction of a water Production, Storage and Pumping Facility to service the existing customers of Cayman Brac and also to allow expansion of the water distribution system to the north side of the island. The Authority took the initiative and in December 2007 contracted with Cayman Survey Associated Limited to carry out a fixed boundary survey for a sub division of Block 104A, Parcel #9 and submit a formal planning application for the subdivision. The process of vesting the 12.58 acre property was completed during 2008/09 and The Authority will resume work on this project when resources are available.

Red Gate Site Work – New Storage Tank, File Storage Building and Landscaping – The Authority has made positive strides to complete the master plan for the Red Gate Site and submit for planning approval. Contract documents for the supply and installation of two, 2 million gallon water storage tanks (Red Gate and North Side) have been prepared and the competitive tendering process is expected to commence in the first quarter of 2009/10, therefore it is reasonable that there are no costs associated with this project at 30 June 2009. The File Storage Building and landscaping have been delayed due to insufficient resources.

North Side Water Works - Pumping Facility – The contract to construct the North Side Water Works Pumping Facility was awarded through the competitive tender process to Construction Management and Engineering Company (CMEC) for \$0.7 million and work commenced in January 2008. As at 30 June 2009 the Authority had spent \$0.8 million on the site internally and \$0.7 million was paid to CMEC for the completed project, which was in line with the original budgeted figure. The pump house project was completed in the third quarter of 2008/09 and was within budget expectations.

Cayman Brac – Septage Treatment and Disposal – No work was done on this project due to unavailable resources.

Risk Management – The Authority recognizes the risk associated with normal operations and mitigates this risk by maintaining four comprehensive insurance policies with British Caymanian Insurance, a company associated with Colonial Group International with an A- rating (as published by AM Best).

- Commercial Combined Policy – to protect the physical assets (exclusive of vehicles) of the Authority
- Comprehensive Vehicle Policy – to protect the fleet assets of the Authority
- Public / Products Liability Policy – to indemnify the Authority in respect of their legal liability to third parties for Bodily Injury and / or Property Damage arising out of and / or in connection with their activities and / or operations.
- Employer Liability Policy – to protect the Authority in the event that an employee becomes sick or is injured as a result of their employment.

5. Summarised Financial Statements

A full set of financial statements for Water Authority – Cayman is provided in the Appendix to this Ownership Agreement.

A summary of those is as follows.

Operating Statement	2008/09 Actual \$	2008/09 Budget (March 2007) \$	Annual Variance \$
Revenue	26,476,479	27,789,215	(1,312,736)
Operating Expenses	23,108,154	25,787,913	(2,679,759)
Net Surplus/Deficit	3,368,325	2,001,302	1,367,023

Balance Sheet	2008/09 Actual \$	2008/09 Budget (March 2007) \$	Annual Variance \$
Assets	74,701,659	76,400,000	(1,698,341)
Liabilities	24,402,654	29,979,216	(5,576,562)
Net Worth	50,299,005	46,420,784	3,878,221

Statement of Cash Flows	2008/09 Actual \$	2008/09 Budget (March 2007) \$	Annual Variance \$
Net cash flows from operating activities	5,584,096	4,712,673	871,423
Net cash flows from investing activities	(3,956,074)	(15,007,100)	11,051,026
Net cash flows from financing activities	3,778,258	10,172,771	(6,394,513)

Explanation of Variances

Explanations for variances are reviewed in section 4 on page 4.

6. Other Financial Information

Detailed below is information about specific financial transaction required to be included in the Ownership Agreement by the *Public Management and Finance Law (2005 Revision)*.

Transaction	2008/09 Actual \$	2008/09 Budget (March 2007) \$	Annual Variance \$
Equity Investments into Water Authority - Cayman	Nil	Nil	N/A
Capital Withdrawals from Water Authority – Cayman	Nil	Nil	N/A
Dividend or Profit Distributions to be made by Water Authority – Cayman	\$100,000	\$100,000	\$ nil
Government Loans to be made to Water Authority – Cayman	Nil	Nil	N/A
Government Guarantees to be issued in relation to Water Authority – Cayman	Nil	Nil	N/A
Related Party Payments (Non Remuneration) made to Key Management Personnel ¹	Nil	Nil	N/A
Remuneration ² Payments made to Key Management Personnel	\$957,026	\$900,000	\$57,026
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

	2008/09 Actual	2008/09 Budget (March 2007)
No of Key Management Personnel	9	9
No of Senior Management	9	9

Explanation of Variances

Transaction:

As part of the budgeting process, the Authority highlights the annual contribution to Government. The number as provided in March 2007 (\$100,000) was subsequently revised in April 2008 (down to \$50,000), approved by the Board however the Authority did honour the original submission and provided a \$100,000 contribution in 2008/09. It is reasonable that there is no variance.

The optimal number of Key Management Personnel for the Authority is set at nine (9); The Director, Deputy Director, Chief Operations Manager, Financial Controller, Customer Service Manager, Chief Human Resource manager, Water Resources Engineer, Information Technology Manager and Operations Manager – CYB.

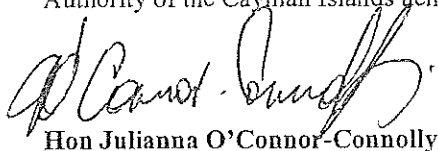
The estimate for remuneration for Key Management Personnel was provided in March 2007 and therefore it is reasonable that there is a slight (6%) variation. Estimates that are more recent were in line with the actual figures as presented in 2008/09.

¹ Key Management Personnel as defined by International Public Accounting Standards No 20, eg Minister, Board Member and Senior Management Team

² Remuneration as defined by International Public Accounting Standards No 20 Par 34(a)

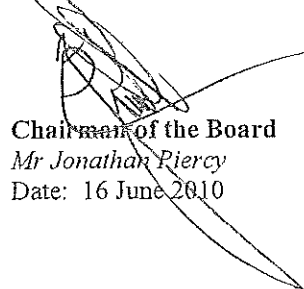
Agreement

We jointly agree that this Ownership Agreement accurately documents the ownership performance that The Water Authority of the Cayman Islands achieved for the 2008/09 financial year.



Hon Julianna O'Connor-Connolly

on behalf of the Cabinet



Chairman of the Board

Mr Jonathan Piercy

Date: 16 June 2010

THE WATER AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF COMMITMENTS
FOR THE YEAR ENDING 30 JUNE 2009

Type	One year or less	One to five years	Over five years	Total
	\$000	\$000	\$000	\$000
Capital Commitments				
Land and buildings	n/a	n/a	n/a	n/a
Other fixed assets	n/a	n/a	n/a	n/a
Other commitments [list separately if material]	n/a	n/a	n/a	n/a
Total Capital Commitments	n/a	n/a	n/a	n/a
Operating Commitments				
Non-cancellable accommodation leases	n/a	n/a	n/a	n/a
Other non-cancellable leases	n/a	n/a	n/a	n/a
Non-cancellable contracts for the supply of goods and services	n/a	n/a	n/a	n/a
Other operating commitments	n/a	n/a	n/a	n/a
Total Operating Commitments	n/a	n/a	n/a	n/a
Total Commitments	n/a	n/a	n/a	n/a

Please see notes # 10 & 11 of the Financial Statements on pages 20 & 21 which outlines and describes future capital and operating commitments.

THE WATER AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF CONTINGENT LIABILITIES
FOR THE YEAR ENDING 30 JUNE 2009

Summary of Quantifiable Contingent Liabilities

	\$000
Legal Proceedings and Disputes	
None	n/a
None	n/a
Total Legal Proceedings and Disputes	<u>n/a</u>
 Other Contingent Liabilities	
None	n/a
None	n/a
Total Other Contingent Liabilities	<u>n/a</u>

Summary of Non-Quantifiable Contingent Liabilities

None
None

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2009; please refer to the attached financial statements and accompanying notes.

The Ministry of District Administration, Works and Gender Affairs

**THE WATER AUTHORITY
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS
For the Year Ended 30 June 2009**

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Water Authority of the Cayman Islands
STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS
30 June 2009

These financial statements have been prepared by the Water Authority of the Cayman Islands in accordance with the provisions of the *Public Management and Finance Law, (2005 Revision)*. The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law, (2005 Revision)*.

To the best of my knowledge the statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2009 and performance for the financial year ended 30 June 2009; and
- (c) comply with generally accepted accounting practice.



Mr Jonathan Piercy
Chairman
Water Authority of the Cayman Islands

Date: 18 Nov '09



Dr. Gelia Frederick van Genderen
Director
Water Authority of the Cayman Islands

Date: 18 Nov '09



Cayman Islands

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Auditor General's Report

To the Board of Directors of the Water Authority of the Cayman Islands

I have audited the accompanying financial statements of the Water Authority of the Cayman Islands, which comprise of the statement of financial position as at 30 June 2009, the statement of comprehensive income and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes in pages 5 to 21 in accordance with the provisions of Section 17(1) of the *Water Authority Law (1996 Revision)*, and Section 52(3) of the *Public Management and Finance Law (2005 Revision)*.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on our audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

As disclosed in Note 9 of the financial statements, pension contributions for eligible employees of the Authority are paid to the Public Services Pension Fund which is administered by the Public Service Pensions Board. Prior to 1 January 2000, the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000, the Fund has both a defined benefit and a defined contribution element. In March

2005, the Honourable Financial Secretary of the Cayman Islands instructed the Authority to recognize its own portion of the past service pension liability from the date of incorporation. The Authority, however, is not able to quantify the liability as at 30 June 2009 as an actuarial valuation has not been completed for this date. As a result, I was unable to determine if the amount of \$873,000 that the Authority has established as a past service pension liability in these financial statements is fairly stated.

Opinion

In my opinion, except for the possible effects of the adjustments necessary for recording the past service pension liability, these financial statements present fairly, in all material respects, the financial position of the Water Authority of the Cayman Islands as at 30 June 2009, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, I draw your attention to one other matter in regards to the financial statements. During the year, I noted that there was water unaccounted for when comparing the amount of water billed versus the expected water to be billed in cubic meters. We estimate the unaccounted water losses cost the Authority \$1,440,000 (2008: \$750,000) to produce.



Dan Duguay, MBA, FCGA
Auditor General

Cayman Islands
November 18, 2009

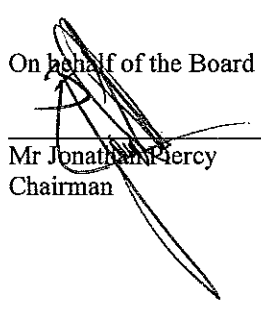
Water Authority of the Cayman Islands

Statements of Financial Position

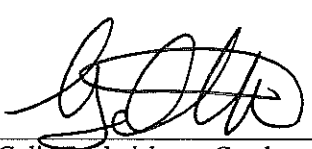
As at 30 June 2009

(Stated in Cayman Islands dollars)

CURRENT ASSETS	NOTES	2009	2008
Cash on Hand		\$ 8,700	\$ 8,100
Cash at Bank		7,278,342	1,872,662
Total Cash and Cash Equivalents	2(i)	7,287,042	1,880,762
Accounts Receivable	2(e), 3	2,884,184	2,834,323
Inventory	2(f), 4	1,130,995	979,833
Prepaid Expenses		231,045	155,882
Total Current Assets		11,533,266	5,850,800
CURRENT LIABILITIES			
Accounts Payable	2(g)	1,572,404	1,838,102
Interest Payable		28,116	37,620
Past Service Pension Liability	9	873,000	708,000
Contract Retention Payable		329,421	306,552
Customer Deposits		1,082,791	1,037,930
Current Maturities on Long Term Liabilities	6	3,786,626	3,156,904
Total Current Liabilities		7,672,358	7,085,108
NET CURRENT ASSETS		3,860,908	(1,234,308)
FIXED ASSETS			
Land – Freehold		3,319,599	3,319,598
Buildings		5,004,895	4,947,472
Water Supply System		31,524,297	30,539,003
Sewerage System		19,410,996	19,623,521
Other Assets		2,114,196	2,108,070
Construction in Progress		1,794,410	1,259,083
Total Fixed Assets	2(c), 5	63,168,393	61,796,747
TOTAL NET ASSETS		67,029,301	60,562,439
LONG TERM LIABILITIES	6	(16,730,296)	(13,531,759)
NET ASSETS		50,299,005	47,030,680
EQUITY		\$ 50,299,005	\$ 47,030,680

On behalf of the Board on the 18 of NOV 2009


Mr Jonathan Piercy
Chairman



Dr Gelia Frederick van Genderen
Director

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands

Statement of Comprehensive Income

For the Year Ended 30th June 2009

(Stated in Cayman Islands dollars)

OPERATING REVENUE	Notes	2009	2008
Water Sales		\$ 21,112,254	\$ 20,041,921
Sewerage Fees		3,382,020	3,253,410
Connection and Miscellaneous Fees		372,274	372,180
Agency Work		153,247	44,512
Septage Disposal		123,942	137,942
Total Operating Revenue		25,143,737	23,849,965
OPERATING EXPENSES			
Water Purchases		\$ 7,599,665	\$ 7,020,096
Depreciation Expense		2,350,878	2,239,540
Salaries		2,299,717	2,067,201
Wages		1,404,872	1,269,563
Repairs and Maintenance		1,230,408	1,432,111
Supplies		1,007,823	944,654
Electricity		917,797	921,317
Loan Interest		540,450	729,537
Miscellaneous		135,367	193,997
Land Lease Expense		12,335	12,335
Total Operating Expenses		17,499,312	16,830,351
GROSS OPERATING SURPLUS FOR THE YEAR		7,644,425	7,019,614
OTHER INCOME			
Royalties		\$ 1,239,097	\$ 1,206,243
Other		80,305	133,805
Statutory Licencing Fees		13,340	18,130
Total Sundry Income		1,332,742	1,358,178
OPERATING SURPLUS FOR THE YEAR		8,977,167	8,377,792
AMINISTRATION EXPENSES			
Salaries		\$ 1,748,969	\$ 1,578,974
Staff Training and Benefits		1,297,329	1,160,110
Insurance		689,250	719,188
Telephone and Utilities		399,943	315,474
Miscellaneous		316,224	371,066
Depreciation Expense		233,446	188,869
Information Systems		178,608	159,529
Past Service Pension Expense	9	165,000	-
Licenses and Dues		134,409	139,588
Repairs and Maintenance		133,539	158,949
Loan Interest		87,750	170,112
Office and Lab Supplies		83,110	75,425
Bad Debt Expense		67,100	35,000
Audit Fees		49,849	52,061
Legal Fees		20,216	23,875
Office Rental		4,100	4,352
Total Administration Expenses		5,608,842	5,152,572
NET INCOME FOR THE YEAR		\$ 3,368,325	\$ 3,225,220

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Changes in Equity
For the Year Ended 30 June 2009
(Stated in Cayman Islands dollars)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
CONTRIBUTED CAPITAL	7	1,085,223	1,085,223
BALANCE AT 1 JULY 2008		45,945,457	42,770,237
Net Income for Year		3,368,325	3,225,220
Contribution to Government	8	(100,000)	(50,000)
BALANCE AT 30 JUNE 2009		<u>49,213,782</u>	<u>45,945,457</u>
TOTAL EQUITY		<u>\$ 50,299,005</u>	<u>\$ 47,030,680</u>

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Cash Flows
For the Year Ended 30 June 2009
(Stated in Cayman Islands dollars)

CASH FLOW FROM OPERATING ACTIVITIES	2009	2008
Net Income for Year	\$ 3,368,325	\$ 3,225,220
Adjustments to Reconcile Net Income to Net Cash Provided by:		
Operating Activities		
Depreciation	2,584,324	2,428,409
Gain on Sale of Fixed Assets	105	-
Interest Earned	-	(27,761)
Interest Expense	628,200	899,649
	<u>6,580,954</u>	<u>6,525,517</u>
Net Change in Working Capital		
Increase in Interest Paid	(628,200)	(928,387)
Increase in Accounts Receivable	(49,861)	(165,977)
Increase in Inventory	(151,162)	(173,950)
Increase in Prepaid Expense	(75,163)	321,767
Decrease in Accounts Payable	(315,698)	436,538
Increase in Contract Retention Payable	22,869	45,935
Increase in Past Service Pension Liability	165,000	-
Decrease in Interest Payable	(9,504)	-
Increase in Customer Deposits	44,861	70,575
Net Cash Provided by Operating Activities	<u>5,584,096</u>	<u>6,132,018</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Assets Purchased	(3,422,548)	(6,083,313)
Proceeds from Sale of Fixed Assets	1,800	27,761
Construction in Progress	(535,326)	2,018,096
Net Cash Used by Investing Activities	<u>(3,956,074)</u>	<u>(4,037,456)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of Long Term debt	7,181,000	-
Repayment of Long Term Debt	(3,352,742)	(3,078,233)
Loans Payable	-	12,056
Contribution payable to Government	50,000	-
Contribution to Government	(100,000)	(50,000)
Net Cash (Used) / Provided by Financing Activities	<u>3,778,258</u>	<u>(3,116,177)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents During the Year	5,406,280	(1,021,615)
Cash and Cash Equivalents at the Beginning of the Year	1,880,762	2,902,377
Cash and Cash Equivalents at End of Year	<u>7,287,042</u>	<u>1,880,762</u>

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

1. Establishment and Principal Activity

The Water Authority is a statutory body, wholly owned by the government of the Cayman Islands, established on 1st January 1990 under the *Water Authority Law (Law 18 of 1982)*, as amended.

The Water Authority is principally engaged in the management of water supply and sanitation affairs of the Cayman Islands including the provision of public water supplies, sewerage systems and the management, development and protection of water resources.

As at 30 June 2009, the Water Authority had 122 employees (2008: 120 employees). The Water Authority is located at 13G Red Gate Road, P.O. Box 1104, KY1-1102, George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee (IASC), and interpretations issued by the Standing Interpretations Committee of the IASC. The significant accounting policies adopted by the Water Authority in these financial statements are as follows:

(a) Early adoption of IAS 1 (Revised)

International Accounting Standard (IAS) 1 (Revised), Presentation of Financial Statements and IAS 1 (Amendment) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). IAS now requires recognised Income and expenses to be presented in a single statement (a statement of comprehensive income) separately from owner changes in equity. The balance sheet will be referred to as the 'Statement of Financial Position' and the cash flow statement is referred to as the 'Statements of Cash Flows'. The Water Authority made a decision to implement early adoption of IAS 1 (Revised) and the changes will be reflected in the 30 June 2009 Financial Statements.

(b) Basis of preparation

The financial statements of the Water Authority are presented in Cayman Island dollars and are prepared on the accrual basis under the historical cost convention.

(c) Fixed assets

- (i) Property plant and equipment are stated at acquisition cost less accumulated depreciation. Construction work in progress is stated at cost, which includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the contract activities. The Water Authority does not capitalize interest as part of the construction cost of fixed assets.
- (ii) Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and other assets that are accounted for separately.

Freehold Land is not depreciated. The estimated useful lives of the other fixed assets are as follows:

Buildings	50 Years
Water and Sewerage Systems	10 - 50 Years
Other Assets	3 - 10 Years

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

2. Significant Accounting Policies (continued)

(d) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the Statement of Financial Position date. Revenue and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates ruling at the date of those transactions. Gains and losses arising on translation are included in the Statement of Comprehensive Income.

(e) Accounts receivables and allowance for bad debts

Accounts receivable are stated at the original invoice amount less allowance for bad debt. (See also note #3).

Management of the Water Authority establishes an allowance for bad debts based on estimates of accounts receivable balances that are uncollectible. The allowance is expensed and an equal amount is set-up as a provision for bad debts, which is netted off against gross accounts receivable balances.

Management determines the amount of the allowance based on its knowledge of individual debtors' past performance.

(f) Inventory and allowance for obsolete inventory

Inventory consists of consumable spares and water. Consumable spares are accounted for on the first-in, first-out basis, and is stated at the lower of cost and net realizable value. Water is calculated as the cost of water plus chemicals multiplied by the volume of water. Management of the Water Authority establishes an allowance for obsolescence of inventory items when it determines that those items are no longer usable in the Water Authority's operations. The allowance is expensed and an equal amount is set-up as a provision for obsolete inventory, which is netted-off against gross inventory balances. The allowance is the amount of inventory that management considers no longer usable.

(g) Payables

Accounts Payable is stated at historical cost.

(h) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of Loan Interest. The interest expense of loan payments is recognised in the Statement of Comprehensive Income using the effective interest rate and or straight line method as appropriate.

(i) Cash & cash equivalents

Cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(j) Revenue recognition

The Water Authority bills its customers monthly for water consumed, sewerage and other services. Revenue derived from such sources is taken to income on a bill rendered basis. No account is been taken of unread water consumption, sewerage and other services at the end of the financial year.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

2. Significant Accounting Policies (continued)

(k) Employees benefits

Members enrolled in the Public Service Pensions Plan prior to 01 January 2000 are governed by Section 28 to 45 (Defined Benefits) of the *Public Service Pensions Law, 1999*. A decision by the Board of Directors was made in July 1998 that all new employees of the Authority at that date would be enrolled in a local approved defined contribution pension plan (British Caymanian Pension).

(l) Use of estimates

The preparation of Financial Statements, in conformity with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclose contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(m) Financial Instruments

(i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise of cash and cash equivalents and accounts receivables.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise long and short term debt.

(ii) Recognition

The Authority recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the Statement of Comprehensive Income.

(iii) Derecognition

A financial asset is derecognised when the Water Authority realises the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expires.

(iv) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition all financial assets are measured at their estimated fair value.

Financial liabilities are subsequently measured at amortised cost, being the amount at which the liability was initially recognised less any principal repayments plus any amortisation (accrued interest) of the difference between that initial amount and the maturity amount.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

3. Accounts Receivable

	<u>2009</u>	<u>2008</u>
Trade Receivables	\$ 3,133,160	\$ 3,093,974
Non Trade Receivables	368,088	290,313
Allowance for Doubtful Accounts	(617,064)	(549,964)
	<u>\$ 2,884,184</u>	<u>\$ 2,834,323</u>

4. Inventory

	<u>2009</u>	<u>2008</u>
Water Supply and Sewerage Materials	\$ 1,069,453	\$ 950,596
Water Inventory	70,653	38,348
Provision for Obsolete Inventory	(9,111)	(9,111)
	<u>\$ 1,130,995</u>	<u>\$ 979,833</u>

5. Fixed Assets

	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	Total
Cost							
At 30 June 2008	3,319,599	5,417,426	42,120,294	26,734,300	6,358,706	1,259,083	85,209,408
Additions	-	-	-	-	523,469	3,544,583	4,068,052
Disposals	-	-	-	-	(15,180)	-	(15,180)
Transfers between fixed assets	-	165,771	2,287,145	556,340	-	(3,009,256)	-
At 30 June 2009	<u>3,319,599</u>	<u>5,583,197</u>	<u>44,407,439</u>	<u>27,290,640</u>	<u>6,866,995</u>	<u>1,794,410</u>	<u>89,262,280</u>
Accumulated Depreciation							
At 30 June 2008	-	469,953	11,581,291	7,110,778	4,250,639	-	23,412,661
Charge for Year	-	108,349	1,301,851	768,866	405,258	-	2,584,324
Disposals	-	-	-	-	(13,274)	-	(13,274)
Capitalized during construction	-	-	-	-	110,176	-	110,176
At 30 June 2009	<u>-</u>	<u>578,302</u>	<u>12,883,142</u>	<u>7,879,644</u>	<u>4,752,799</u>	<u>-</u>	<u>26,093,887</u>
Net Book Value							
At 30 June 2008	<u>\$ 3,319,599</u>	<u>\$ 4,947,473</u>	<u>\$30,539,003</u>	<u>\$ 19,623,522</u>	<u>\$ 2,108,067</u>	<u>\$ 1,259,083</u>	<u>\$ 61,796,747</u>
At 30 June 2009	<u>\$ 3,319,599</u>	<u>\$ 5,004,895</u>	<u>\$ 31,524,297</u>	<u>\$ 19,410,996</u>	<u>\$ 2,114,196</u>	<u>\$ 1,794,410</u>	<u>\$ 63,168,393</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

5. Fixed Assets (continued)**a) Construction in Progress**

Construction-in-Progress relates to expenses incurred in connection with the following:

	2009	2008
1. North Side Water Works Site Preparation	874,674	304,581
2. North Side Water Production and Pumping – Contractors	718,285	438,241
3. Extension on High Rock Road	100,492	-
4. Extension on East/West Corridor	79,814	-
5. Cayman Brac – Site Preparation	15,112	11,230
6. East End Wellfield and Reservoir Upgrade	6,033	6,033
7. North Side Supply Extension	-	317,949
8. Red Gate Storeroom Modifications	-	125,908
9. West Bay Beach – Extension to Renaissance	-	45,339
10. Emergency Generator – Pump Station # 1	-	9,282
11. Upgrade on Bobby Thompson	-	520
	\$ 1,794,410	\$ 1,259,083

6. Long Term Liabilities

	Current	1-2 yrs	3-5 yrs	5+ yrs	2009	2008
a) First Caribbean International Bank (Cayman) Limited						
(i) Administration Building Loan (3.82%)	133,340	266,680	70,483	-	470,503	600,089
(ii) Waste Water Treatment Works Loan						
LIBOR note # 107762 (6.35%)	-	501,000	-	-	501,000	501,000
LIBOR note # 10013845 (6.07%)	2,326,426	3,926,435	128,625	-	6,381,486	8,460,996
(iii) New Administration Building Loan (6.26%)	176,212	352,423	528,635	1,034,844	2,092,114	2,289,420
(iv) North Side Supply Extension & North Side Pumping Facility (1.51%)	165,027	330,054	495,081	1,514,838	2,505,000	-
(v) Drawdown on Credit Facility F (1.50%)	308,050	616,100	924,150	2,827,700	4,676,000	-
b) Cayman Islands Government						
(i) Grand Cayman (0%)	210,894	421,788	632,682	1,012,022	2,277,386	2,488,280
(ii) Cayman Brac (8.0%)	35,100	-	-	-	35,100	105,300
c) Ocean Conversion (Cayman) Ltd.						
(i) Lower Valley – Second Expansion (0.41667%)	108,652	234,266	72,848	-	415,766	519,130
(ii) North Sound – Original (0%)	124,312	-	-	-	124,312	497,247
(iii) North Sound – Expansion (0.41667%)	198,613	428,231	411,411	-	1,038,255	1,227,200
					Total Long Term Liabilities:	20,516,922
					Less Current Maturities:	16,688,663
					(3,786,626)	(3,156,904)
					\$ 16,730,296	\$ 13,531,759

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

6. Long Term Liabilities (continued)

- a) (i) On 17th August 1998 FirstCaribbean approved a credit facility of CI\$ 1,600,000 for the Water Authority Administration Building at 13G Red Gate Road. The loan is provided at an interest rate of 1% over London Interbank Offered Rate (LIBOR) repayable on a monthly basis of US\$ 14,875 over a fifteen-year period that commenced on 14th October 1999. FirstCaribbean presently holds a Registered First Charge over the property.

- (ii) In September 2000, Government gave approval for the Water Authority to enter into the US\$ 12.8 million loan agreement with FirstCaribbean for the financing of the Grand Cayman Wastewater Treatment Works Project. The loan agreement was approved by FirstCaribbean under the terms and conditions of the facility letter dated 15th September 1999 and was signed on 29th December 2000. In September 2002 this loan agreement was increased by US\$ 4.4 million to a total of US\$ 17.2 million. In addition to the terms and conditions defined in the facility letter dated 15th September 1999, FirstCaribbean required a written confirmation from the Cayman Islands Government that they will not guarantee any future obligations of the Water Authority without their written consent. The government shall also retain full legal and beneficial ownership of the whole issued share capital of the Water Authority at all times and total of all dividends and other capital withdrawals shall not be made to the detriment of the authority's full debt service obligations.

The loan is provided at an interest rate of 1% over London Interbank Offered Rate (LIBOR) and has a Capital Repayment Holiday Period (CRHP) that represents the period beginning on the date of the drawdown of the first advance and expiring on either the date of completion of construction of the Grand Cayman Wastewater Treatment Works or 24 months after the date of the drawdown of the first advance whichever is earlier. Loan repayments commenced in January 2004 and on the first business day of each succeeding 36 months at an aggregate monthly amount of US\$ 110,000 including principal and interest, thereafter, on the first business day of each of the immediately succeeding 71 months, an aggregate of US\$ 250,000 per month including principal and interest. On the first business day of the immediately succeeding month (being December 2012), an amount equal to the balance of the Loan then outstanding together with all interest accrued thereon and all other sums due by the Borrower will be paid to the Bank.

In April 2003 FirstCaribbean International Bank and the Authority amended the Deed of Agreement dated December 29, 2000 and agreed to syndicate 1/3rd of the credit facility to Scotiabank (Cayman Islands) Ltd. This agreement would allow FCIB and Scotiabank to hold a maximum loan balance of US\$ 11,466,667 and US\$ 5,733,333 respectively. At 30 June 2009, 85% (US\$6,554,523) of the loan balance was held with FCIB and 15% (US\$1,122,289) with Scotiabank. (2008: 80% with FCIB and 20% with Scotiabank).

- (iii) In November 2006, Government gave approval for the Water Authority to enter into a credit agreement for the financing of the extension to the Administration Building and future capital projects. The loan agreement was approved by First Caribbean on the 29th of May 2006.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

6. Long Term Liabilities (continued)

- (iv) As part of that same agreement, the Authority finalized negotiations with FCIB to secure financing for future capital projects. The loan agreement outlined two additional credit facilities:
- (i) Credit facility E for an amount of US\$ 4,500,000 to finance capital projects for the period 1 July 2006 – 30 June 2007;
 - (ii) Credit facility F, in the amount of US\$ 8,600,000 to finance capital projects for the period 1 July 2007 to 30 June 2008

These two credit facilities (E and F) have been updated twice since, the first on 1st December 2006 to extend the availability period to 31 December 2007 and 31 December 2008 respectively, and the second on the 15 February 2008 whereby Credit Facility E was cancelled and Credit Facility F further extended to 30 June 2009. During the availability period the loans will be carried on an interest only basis payable monthly in arrears.

- (v) As at 30 June 2009 the Authority has withdrawn the entire available funds under credit facility F. US\$3,000,000 was withdrawn in December 2008 to finance the North Side Extension (\$2,300,000) and the North Side Pumping Station (US\$700,000) and the further \$5,600,000 was drawn down in June 2009 and will be allocated to future capital projects.

Credit Facility F carries an interest rate of LIBOR plus 0.9% with repayments of US\$ 76,000 for a period of 15 years.

- c)(i) The Cayman Islands Government loaned the Authority CI\$ 4,822,349 for the development of the facilities in Grand Cayman. The loan is interest free and is being repaid in quarterly instalments of CI\$ 48,223 over a period of twenty-five years which commenced on the 1st of April 1995. This loan was increased in February 1997 by CI\$ 450,000 in exchange for a 1.3-acre parcel of land at Red Gate that was sold to the Water Authority by the Cayman Islands Government for the purpose of constructing the Administration Building. The increased portion of the loan was formalised on 27th December 2001. It is interest free and is being repaid by an initial instalment of CI\$ 90,000 and annual instalments thereafter of CI\$ 18,000 over a period of 20 years.
- (ii) The Cayman Islands Government loaned the Authority CI\$ 1,053,000 for the development of the facilities in Cayman Brac. The loan attracts interest at a fixed rate of 8% per annum and is repayable in quarterly instalments of CI\$ 17,550 over a period of 15 years which commenced on the 1st of April 1995.
- d)(i) The Water Authority contracted with Ocean Conversion (Cayman) Ltd. ("OCL") on the 17th of June 1997 to provide and operate a reverse osmosis seawater desalination plant at Lower Valley, Grand Cayman under a lease purchase and operating agreement. The plant was completed in March 1998 and is financed at a fixed interest rate of 5% per annum. Under the terms of the agreement, the Authority commenced payments to OCL in April 1998, making monthly payments of US\$ 17,325 and CI\$ 6,998 for a duration of seven years.

In 1999 the Lower Valley Reverse Osmosis Plant was expanded to a production capacity of 3,000 cubic meters per day under contract with OCL. The cost of the expansion to the Water Authority was CI\$ 973,833, plus additional monthly operating fees. The expansion of the plant was completed in March 1999 and is financed at a fixed interest rate of 5% per annum. Under the terms of the agreement, the Authority commenced payments to OCL in March 1999, making monthly payments of US\$ 33,028 and CI\$ 7,676 for duration of seven years.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

6. Long Term Liabilities (continued)

On the 1st of August 2005 the Authority signed a contract with OCL to expand the Lower Valley Reverse Osmosis Plant to a production capacity of 4,000 cubic meters per day. The cost of the expansion to the Authority was C\$ 749,174, plus additional monthly operating fees. The plant expansion was completed in January of 2006. Under the terms of the agreement, the Authority commenced payments to OCL in February of 2006, making monthly payments of US\$ 9,591 and C\$ 2,572 for duration of seven years.

- (ii) On 26th October 2001 the Authority signed a contract with OCL to construct the North Sound (previously referred to as expansion of the Red Gate Reverse Osmosis Plant) Reverse Osmosis plant on the Red Gate site with a production capacity of 3,000 cubic meters per day. The cost to the Authority was C\$ 2,612,006, plus additional monthly operating fees. The plant was completed in November of 2002. Under the terms of the agreement, the Authority commenced payments to OCL in November of 2002, making monthly payments of US\$ 21,750 and C\$ 12,917 for duration of seven years

On 5th January 2007 the Authority signed a contract with OCL to expand the North Sound Reverse Osmosis Plant from a production capacity of 3,000 to 6,000 cubic meters per day. The cost of the expansion to the Authority was US\$ 1,302,705 and C\$ 362,746, plus monthly operating fees. The plant expansion was completed in March 2007. Under the terms of the agreement, the Authority commenced payments to OCL in April 2007, making monthly payments of US\$ 18,412 and C\$ 5,127 for duration of seven years.

OCL holds the Lower Valley and North Sound buildings and the plant and equipment comprising the seawater desalination plant as collateral for the loans as described above.

e) Overdraft Facility C\$500,000

The Authority has arranged an overdraft facility at prime rate plus 0.5% interest per annum with First Caribbean International Bank in the amount of C\$500,000. At 30 June 2009 \$nil (2008: \$nil) of the overdraft facility was being utilized.

7. Contributed Capital

Contributed capital of \$1,085,223 (2008: \$1,085,223) represents funds received from private individuals to fund capital work that was completed by the Water Authority. The relevant costs have been capitalised as water and sewerage works (see Note 5).

8. Related Party Transactions

The Cayman Islands Government appoints the Chairman and Members to the Authority's governing Board. The following transactions occurred during the year between the Authority and the Cayman Islands Government.

1. The Authority made loan repayments to Government during the twelve month period of \$281,094 (2008: \$300,799).
2. The Authority recognized contributions to Government relating to the year ended 30 June 2009 of \$100,000 (2008: \$50,000).
3. Government Contribution Payable \$50,000 (2008: \$50,000).
4. Key Management Compensation \$957,026 (2008: 854,995)

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

8. Related Party Transactions (continued)

During the year, the Water Authority provided at no charge to the Cayman Islands Government the availability and use of water for fire fighting, free sewerage service to a number of indigent persons in the Watler's Road area, supervision of water resources, administration of Plumbers Examination Board, consultative services for development control, and water at a reduced Public Authority rate. The Authority also engages the services of other government departments of the Cayman Islands Government. Such services are provided at current prevailing market prices on an arm's length basis.

As detailed in Note 9 the Authority and its eligible employees paid contributions to the Public Service Pensions Fund during the year.

9. Pensions

a) Defined Benefit Plan

The Public Services Pension Plan is managed by the Government of the Cayman Islands through the Public Services Pension Board. The Board is responsible for among other things, administering The Public Service Pensions Fund (the "Fund"), communicating with plan participants and employers, prescribing contribution rates in accordance with the latest actuarial valuation and recommending amendments to the Public Service Pensions Plan (the "Plan") as needed.

The Authority recognises the unfunded past service liability as a liability on its financial statements once the actuarial valuation is completed and the actual liability since 1990 (date of establishment) is determined.

The most recent actuarial valuations for IAS 19 reporting was conducted as at 30 June 2008 (dated 17 July 2009) and 30 June 2007 (dated 21 November 2008) which identified the Authority's unfunded past service pension liability as at that date and the profit and loss charges associated with the plan participation for the financial year then ended.

The actuarial position is as follows:

	As at 30 June 2008	As at 30 June 2007	As at 30 June 2006	As at 30 June 2005	As at 1 July 2004
Net Present Value of Funded Obligation, beginning of year	2,393,000	2,375,000	2,210,000	2,872,000	2,139,000
Fair Value of Plan Assets	1,643,000	1,702,000	1,543,000	1,774,000	1,566,000
Defined Benefit Liability	(750,000)	(673,000)	(667,000)	(1,098,000)	(573,000)
Unrecognised Past Service Cost	-	-	-	-	-
Unrecognised Actuarial Net Gains/(Losses)	(123,000)	(135,000)	(41,000)	488,000	-
Net Liability in Balance Sheet, end of year	(873,000)	(808,000)	(708,000)	(610,000)	(573,000)

Past Service Pension Liability valuations for the periods ending 30 June 2007 and 30 June 2008, in the amounts of \$100,000 and \$65,000 respectively, were made available to the Authority during the current fiscal period. The Authority recognized the adjustments in the current period. No valuation was done as at 30 June 2009 and thus the amount recognized reflects the actuarial position as at 30 June 2008.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2009

9. Pensions (continued)

The movement in the present value of the funded obligation was as follows:

	30 June 2008 \$000	30 June 2007 \$000	30 June 2006 \$000
Defined Benefit Obligation, beginning of year	2,375	2,210	2,872
Current Service Cost	97	114	108
Interest Cost	148	138	149
Plan Participant Contributions	55	39	45
Net Actuarial (Gain)/Loss on obligations	(282)	(41)	(505)
Transfers between other participating Entities	-	(85)	(459)
Defined Benefit Obligation, end of year	2,393	2,375	2,210

The movement in the fair value of the plan assets during the year was as follows:

	30 June 2008 \$000	30 June 2007 \$000	30 June 2006 \$000
Fair value of plan at the beginning of year	1,702	1,543	1,774
Employer & Participant Contributions	113	80	92
Expected Return on Assets net of Expense	122	111	127
Actuarial Gain/(Loss) on plan assets	(294)	81	9
Transfers between other participating Entities	-	(85)	(459)
Other: Impact of re-statement of beginning of year assets	-	(28)	-
Fair value of plan at the end of year	1,643	1,702	1,543

Reconciliation showing movement of past service liability during the period:

Balance as at 30 June 2006	708,000
Plus: Reconciliation of PSL 2007	100,000
Plus: Reconciliation of PSL 2008	<u>65,000</u>
Balance as at 30 June 2008	<u>873,000</u>

Actuarial Determination of Pension Expense as at:

	30 June 2009 \$000	30 June 2008 \$000	30 June 2007 \$000
Current Service Cost, net of employee contributions	82	97	114
Interest Cost	161	148	138
Expected Return on Assets	(118)	(122)	(111)
Pension Expense	125	123	141

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9. Pensions (continued)

The total amount recognised as a pension expense for 2009 was \$45,511 (2008: \$43,557). This amount is included as Administrative Expenses (Staff Training and Benefits). The actual amount of pension expense relating to the defined benefits for staff should include the effect of the changes in the actuarial determined liability. However, since the most current valuation is for 30 June 2008, management has not estimated the impact on the recorded expense for the year ended 30 June 2009.

The Distribution of the plan assets based on the share of the total fund allocated to the Authority was as follows:

	30 June 2008	30 June 2007	30 June 2006
Global Equities	46.4%	59.0%	58.7%
Bonds	43.1%	32.8%	37.0%
Other	5.9%	2.5%	3.7%
Cash	0.0%	5.4%	0.6%
Term Deposits	0.0%	0.3%	0.0%
Property	4.6%	0.0%	0.05%

The principal Actuarial Assumptions at the date of valuation:

A. Cost Method - Projected Unit Credit

B. Economic Assumptions used to determine the net Benefit Obligations as at:

	30 June 2008	30 June 2007	30 June 2006
Discount Rate	6.75%	6.25%	6.25%
Expected long-term rate of return (net of Expense)	7.00%	7.00%	7.00%
Salary Increase	4.00%	4.00%	4.00%
Future Pension Increases	2.50%	2.50%	2.50%
Inflation Rate	2.50%	2.50%	2.50%
Expected remaining working lives (years)	14.09	14.09	11.18

C. Other Assumptions –

1. Mortality – Standard U.S. mortality rates
2. Retirement Age – completion of age 57 and 10 years of service

D. Asset Valuation –Fair (Market) Value

Prescribed Contribution Rates:

The last actuarial valuation report that detailed the Authority's specific contribution requirements was conducted as at 1 January 2005 (dated 16 March 2007). The minimum normal annual contribution for the Authority was assessed at 16.56% for 2007 (13.00% in 2006), which is inclusive of the employee contributions.

This deficiency position gives rise to a required annual amortization payment of CI\$36,000. The actuary recommends that the Authority contributes at a prescribed rate of 21.57% of defined pensionable earnings for the year 2005 and subsequent years until the next actuarial assessment is conducted.

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9. Pensions (continued)

b) Defined Contribution Plan

In accordance with the *National Pensions Law of June 1998*, all new employees who are not participants in the Public Service Pensions Fund are enrolled in an approved local defined contribution pension plan (British Caymanian Pension). During 2008-09 the Authority and its employees paid 5% and 5% respectively of salary contributions for British Caymanian and 5% and 7.26% for Public Service Pension Fund. The current number of employees enrolled under the defined benefit plan with the Public Service Pension Fund is 10 (2008: 12) and the total employees enrolled in the defined contribution plan with British Caymanian Pension is 112 (2007: 108).

The total amount recognised as a pension expense for the 12 months ended 30th June 2008, inclusive of both the Public Service Pensions Fund and British Caymanian, was \$333,932 (2008: \$ 296,183).

10. Leases

The Authority leases a parcel of land in Cayman Brac under an operating lease. Lease payments are currently \$1,027 per month and are subject to periodic review to reflect open market rental values. The lease was signed in January 2000 and runs for a period of thirty years.

11. Commitments

In an agreement with Ocean Conversion Limited (OCL) (previously called Reliable Water Cayman Ltd.) in 1989, the Authority agreed to pay a monthly fee and a quantity fee based on quantity of water delivered to the Authority. In November 2001 a seven year extension was signed to this license in accordance with section 14 of the agreement, which expired in November 2008. The monthly fee payable to OCL was US\$14,476 and charged as a water expense. On completion of the seven year extension, the Plant became the property of the Authority without any further payment. On 4 June 2009 the Authority signed a contract with OCL to refurbish the existing Red Gate Reverse Osmosis plant with the same production capacity of 5,000 cubic meters per day. The cost to the Authority is US\$2,770,031 and CI\$750,840 plus additional monthly operating fees. Construction is expected to start in November 2009; upon completion the Authority will commence making monthly payments of US\$41,133 and CI\$11,150 for duration of ten years. OCL will hold the Red Gate site buildings and the plant and equipment comprising the seawater desalination plant as collateral for the loans as described.

On 11 March 2008 the Authority signed a contract with OCL to construct the North Side Reverse Osmosis plant on the North Side site with a production capacity of 9,000 cubic meters per day. The cost to the Authority is US\$7,720,467 and CI\$2,729,852 plus additional monthly operating fees. The plant was completed in June of 2009, however under the terms of the agreement, the Authority will commence payments to OCL in July 2009, making monthly payments of US\$87,664 and CI\$30,969 for duration of ten years. OCL will hold the North Side buildings and the plant and equipment comprising the seawater desalination plant as collateral for the loans as described.

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12. Financial Risk Management Objectives and Policies

The Authority's principal Financial Liabilities are comprised of loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Authority's operations. The Authority is exposed to market risk, credit risk and liquidity risk.

a) Market Risk – Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The only financial instrument held by the Authority that is subject to market risk, in the form of interest rate risk, is loans and borrowings.

i) Interest Rate Risk – The Authority has loans with Government and a counterpart with fixed interest rates ranging from 5% to 8%. Details of rates and maturities are presented in note 6. The Authority manages its interest rate risk by negotiating the lowest available rates on credit facilities and taking advantage of lower long term rates.

b) Credit Risk – Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Authority is exposed to credit risk from its operating activities (primarily for trade receivables) and from its deposits with banks and financial institutions.

i) Credit Risk Related To Receivables – Customer credit risk is jointly managed within the Finance and Customer Service departments of the Authority. Outstanding customer receivables are regularly monitored and the Authority will disconnect water supply to any customers who do not pay their invoices within 60 days. Payment agreements are available to customer who seek assistance, and are monitored closely to ensure compliance. Failure to pay within the outlined time will result in disconnection. The Authority does hold customer deposits on each account as collateral against non-payment 2009 \$1,082,791 (2008: 1,037,930), which is 41% and 41% respectively on net trade receivable accounts.

ii) Credit Risk Related to Financial Instruments – The Authority's maximum exposure to credit risk of the components of the balance sheet at 30 June 2009 and 2008 is the carrying amounts as illustrated in note 6. The Authority balances this risk by maintaining cash, offset by loan balances at the main financial institution.

c) Liquidity Risk – Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Authority's objective is to maintain a strong cash position, while balancing payment of capital projects from either available cash balances or through a traditional credit facility.

13. Financial Instruments

Fair values. As at 30 June 2009 and 2008, the carrying amount of cash deposits, accounts receivable, other receivables and accounts payables approximate their fair value due to their short-term maturities. Fair values are made at specific points in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

14. Subsequent Event – Directive for valuation and sale of the Authority's Sewerage Assets

On 21 October 2009 the Authority received direction from the Government of the Cayman Islands to initiate a valuation of the sewerage assets and to prepare the necessary documents for their sale. At the time of preparing these statements the Authority had prepared the request for proposals for the valuation exercise; however the sale had not yet been published. The current appraisal of the sewerage assets is not available and therefore, while the Authority is committed to sell the sewerage assets in the 2009/10 fiscal year, the sale has not been marketed and is therefore uncertain. Therefore the impact on the Financial Statements cannot be determined, including, but not limited to, the reclassification of the net book value of the sewerage assets included in the fixed assets as assets held for sale and the amount that would be recorded as an estimated gain or loss.